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CANADIAN GOVERNMENT ANNUITIES

A STUDY OF THEIR RELATION TO THE PROBLEM OF POVERTY IN OLD AGE

UNTIL about a half-century ago the universal solution of the problem of poverty in old age—if solution it can be called—was the poorhouse in some of its more or less humane forms. But in the last half-century¹ there have been set in operation a wide variety of plans designed to relieve the aged poor without attaching to them the stigma of pauperism. Underlying all these plans is the principle that the state has a duty to protect the soldiers of industry against misery in old age. They range from old-age pensions, as in New Zealand and the United Kingdom, to simple annuities at rock-bottom rates with what is practically a state guarantee, as in Massachusetts. Canada has now had in existence for something over six years a system of annuities which approaches close to the Massachusetts standard, but which is differentiated from that standard by an indirect state subvention to the annuities fund.

The position of the Canadian government annuities in the range of plans may be defined more accurately by a few details. In New Zealand and in Great Britain the beneficiary is not asked to make any contribution towards the cost of the pension; the state bears the whole burden. On the continent of Europe—in Switzerland, in Belgium, in Germany, in France—there are in operation schemes under which the individual makes a small contribution and this is supplemented by a state bonus. This state bonus has different forms; in Germany it is a flat contribution to the pension; in Belgium and Neuchatel, Switzerland, it has a rough proportion to the contribution of the beneficiary. All these schemes, however, have as a funda-

¹ The French "Caisse de Retraites," the oldest, dates from 1850. See *The State and Pensions in Old Age*, J. A. Spender, Chapter 6.

mental characteristic a definite contribution by the state, in addition to the payment of expenses of administration by the state. In Massachusetts, on the other hand, the state makes no direct contribution and the annuity premiums are "loaded" to cover the expenses of administration, although the state does make a considerable contribution towards those expenses. In Canada the annuity premiums are not "loaded" to provide for expenses of administration; these are borne by the state, and in addition the premiums are calculated on the basis of a rate of interest slightly higher than the normal market rate. In these two ways the Canadian government makes an indirect contribution to the cost of the annuities. As a result the Canadian rates are noticeably lower than those in force in Massachusetts, although not so low as in those European countries where the government makes a direct contribution to the fund.

I. ORIGIN.

The Canadian government annuities are the result of an effort on the part of the administration of Sir Wilfrid Laurier to out-flank an agitation for old-age pensions. This agitation grew out of the discussions in the United Kingdom prior to the adoption of the present pension system, and came to a head in the session of Parliament of 1906¹ in the form of a motion calling for government action of some undefined character for the relief of the aged poor. The following year a similar motion was presented, and the Premier announced himself as opposed to old-age pensions unless contributory. This was in the House of Commons. In the Senate at the same session Sir Richard Cartwright, minister of trade and commerce, discussed the problem and laid on the table of the House a draft bill providing for old-age annuities.²

In taking this action Sir Richard stated his attitude towards old-age pensions. He would not object to them if limited to the "honest and industrious" who through "accident or misfortune or some other cause of a similar kind" find themselves

¹ Debates, House of Commons, Canada, 1906-7, vol. ii, pp. 3374-96.

² Debates, Senate, Canada, 1906-7, p. 798.

in want in their old age. But he added: "My own impression is that in a great many cases such a scheme would be found to encourage extravagance, and the result would be that the thrifty, industrious workingman would find himself ultimately compelled to bear the burden of his less industrious, and possibly dissolute, companion."¹

To this general criticism Sir Richard admitted "one exception," which he stated thus:

I can understand in the case of old and densely-peopled countries where a large proportion of the population are leading a life from hand to mouth, where practically there is no margin, that statesmen may find themselves, or think themselves, compelled to adopt some such expedient; although, even there, I am strongly of opinion that the experiment is dubious, and, at best, can only be regarded as a temporary expedient, dealing with the effect and not with the cause. Fortunately for us in Canada, I think I am justified in saying, and I think the experience of my colleagues here and elsewhere will bear me out, there is very little risk of any hardworking, industrious, able-bodied man not being able to make adequate provision for his old age, if only an opportunity were given him.

It was to provide this "opportunity" that Sir Richard proposed the establishment of a system of government annuities. He stated his position as follows:

Speaking for myself alone, and in no sense speaking in this matter for my colleagues or other parties, I doubt extremely the expediency of having recourse to a system of old-age pensions, but I do believe there is a great opportunity for the state to avail itself of the machinery at its disposal for the purpose of placing within the grasp of every industrious man in Canada the opportunity at an easy rate, and at a very small cost to the state, of providing a reasonable annuity for his support at an advanced period of life. I say more: not only do I believe that this can be done practically without cost, or at an infinitesimal cost, to the state—infinitesimal, that is to say, in proportion to the benefits to be bestowed—but I believe that some such scheme would attain an end of very great national importance, and meet a great want which is now felt, and which will be more felt from time to time as we grow

¹ Debates, Senate, Canada, 1906-7, p. 331 ff.

in wealth and importance, and as there are larger numbers of our people engaged in what we may call daily wage-earning occupations.

These are the views of the originator of the Canadian government annuities. It will be noticed that he said that he spoke for himself alone, and did not purport to express the opinion of the cabinet. These views were expressed the year before the system was actually established. In the meantime the subject of old-age pensions itself had been discussed in the House of Commons¹ and the Premier and Hon. W. S. Fielding, the finance minister, had both put forward the cabinet view. They were both critical of the proposal but agreed to the appointment of a committee to investigate the whole subject. That committee did not report; its proposer, Mr. R. F. Pringle, was defeated at the election that year, and the subject did not arise again till 1912 when the present government was in power. Since then another committee² has sat and a great deal of evidence favorable to old-age pensions has been received. But at the regular session in 1914, when the Liberals raised a debate on the issue, the present minister of finance, Hon. W. T. White, took much the same ground as was occupied by his Liberal predecessor and declared that there was no need for old-age pensions in Canada.³

The agitation for old-age pensions has persisted in spite of the establishment of a government annuity system; but it is an agitation kept up by a few enthusiasts, aided by partisans, and has no grip on the public mind. The part played by party spirit in keeping it alive was amply evident in the debate in 1914 already referred to: the Liberal opposition were enthusiastic for pensions, although they had so recently been sceptical; and the Conservatives formerly favorable, now with the responsibilities of power, had fallen heir to the rôle of the sceptics. In the debate the public apparently took little interest. Whether by the system of government annuities or otherwise, the teeth

¹ Debates, House of Commons, 1907-8, pp. 2398-2435; 2786; 12660.

² *Ibid.*, 1911-12, pp. 1362-90; 1822-39; 2217. Report was not printed. See Journals, 1912-13, pp. 625 and 638.

³ Debates, House of Commons, Canada, 1914, pp. 1333-58.

of the old-age pension agitation had been drawn before they were politically dangerous.

II. ANNUITY PLANS—COST.

Four main principles underlie the Canadian government annuities:

1. They have a state guarantee.
2. There is no forfeiture in case payments are interrupted or cease altogether.
3. The annuity cannot be mortgaged or seized for debt.
4. The annuity cannot be anticipated.

These underlying conditions are not all set out in the act¹ under which the annuities are administered. The state guarantee is implicit in the contract between the government and the annuitant. Non-forfeiture is secured by the policy of the annuity branch, and has a negative basis in law, in that there is no provision as to forfeiture. The act contains specific provision against the seizure of annuity for debt, except in case of fraud, and also against its transfer to another person. Anticipation is guarded against by provision that, except in case of invalidity or disablement, no annuity shall commence before the annuitant has reached the age of fifty-five.

Canadian government annuities are sharply distinguished from old-age pensions by the absence of a direct contribution by the government. The government does, however, make indirect contributions by two methods: through the rate of interest on which the annuities are based, and by the payment of the expenses of administration. The annuities are based on an interest rate of four per cent, which is higher than the rate paid by the government for money at the time the act was passed. This meant that the government was paying something towards the annuities at that time. Lately, on the other hand, the government has been paying more than four per cent for money, and consequently this contribution has ceased.

The contribution made to the annuities by way of the cost of

¹ The Government Annuities Act, 1908, (7-8 Edward VII, C. 5; as amended by Acts, 1909, C. 4; 1910 C. 4 and 5; and 1913, C. 7.)

administration amounts at present to about \$30,000 a year. The highest figure which the expenditure has reached since the act was passed is \$39,000¹ in 1910-11. This contribution would be covered on the average by a loading of five per cent for expenses, which would not materially increase the premiums.

At the outset the fund was managed by the Department of Trade and Commerce, at the head of which was Sir Richard Cartwright, the originator of the annuity plan. Since the change of government in 1911 it has been transferred to the Post Office Department. The fund exists only as a matter of bookkeeping. The moneys received are placed in the general "Consolidated Fund," out of which all current expenditures of the government are defrayed; and in return the annuitant receives a government guarantee of his investment. An account of the fund is, nevertheless, kept for the purpose of ascertaining whether it is self-sustaining or not; and in this account the government is charged with the payments necessary to maintain the actuarial reserve. Up to the present, leaving the cost of administration to one side, the fund has been self-sustaining and the contribution of the government by way of a higher rate of interest has been practically nil.²

The annuities sold are of two kinds: immediate and deferred. It is the second class with which we are here chiefly concerned. The immediate annuities do not, in the nature of the case, provide a means of saving for old age. They do, however, make it possible for old people who have been thrifty to make better provision for their declining years than is otherwise available, and in addition they offer to the aged an opportunity to get the largest possible return from their savings without assuming any risk. In these ways they do present an inducement to thrift, especially to persons in middle age whose circumstances may very well make the purchase of a deferred annuity impracticable. The immediate annuities are to this extent a contribution to the

¹ These figures do not include rent for offices, which are not given separately. See annual reports of auditor-general.

² Up to the end of the fiscal year 1914-15 the total receipts on account of annuities were \$2,442,075.59. At the same date the net present value of all outstanding contracts, that is the present value of payments due on them, was \$2,315,585.53.

solution of the problem with which we are engaged; and they have attracted up to the end of the fiscal year 1914-15 something over six hundred purchasers. They contribute largely to the receipts of the annuity branch, as in the case of immediate annuities it is the capital sum which is paid in as against the premiums which are to breed that capital sum in the case of deferred annuities. But although the immediate contracts bulk largely in the receipts, they form but a small proportion of the total number of contracts written—less than one-sixth in fact—and for this reason too they are of minor importance in a social and economic study of the annuity system.

The deferred annuities are available in great variety. A contract may be taken out as early as five years of age, the application in such a case being in the name of the parent or guardian. Payment of premiums may be regular or intermittent; and they may cease at any time the annuitant chooses or finds it necessary. The annuity, except in case of invalidity, cannot be drawn before the age of fifty-five; but it may be delayed until any age the purchaser desires, with the proviso that the price shall be the same for all ages above eighty-five. If payments are intermitted or cease, the annuitant will receive full value for whatever he may have paid. If, however, his payments are not sufficient to purchase an annuity of fifty dollars, his payments will be returned to him with interest at three per cent, compounded yearly.

The amount of annuity which may be purchased is limited to one thousand dollars. At the inception of the system this upper limit was six hundred dollars, and husband and wife were unable to purchase a larger annuity, either jointly or by two separate contracts. In 1913 the limit was raised to one thousand dollars, and husband and wife may each take out contracts for that amount. An annuity may be for life simply, or it may be guaranteed for a term of years. The contract may be for a single person or with two persons jointly, with or without continuance to the last survivor.

Payments for an annuity may be made directly to the department or through any money-order post office. The latter plan is advised by the annuity branch in the case of deferred an-

nuities. Special provision is made in the annuities act that moneys deposited in the post-office savings banks may be transferred for the purchase of an annuity.¹ There is provision as well under which an employer may contract with his employees to purchase annuities, the cost of which is divided between the parties as agreed by them, provided that the form of the agreement is approved by the minister in charge of the annuities branch.² No medical examination is necessary to the purchase of an annuity.

The cost of the annuity varies, of course, according to the nature of the contract, the age of the applicant and the age at which the annuity falls due. For instance, one may take the rates for a simple annuity to begin at the age of 55 (the earliest age possible under the act, and also the most popular age). The following table³ shows the monthly premiums required to purchase an annuity of \$100 to begin at that age, the premiums to be paid from the commencing ages mentioned below. In this table "Plan A" means that, if the purchaser dies before the annuity begins, his payments are returned to his heirs with compound interest at three per cent; under "Plan B" there is no return in that case.

COMMENCING AGE	PLAN A		PLAN B	
	MALE	FEMALE	MALE	FEMALE
20	\$1.27	\$1.38	\$1.01	\$1.10
25	1.68	1.83	1.37	1.49
30	2.28	2.48	1.90	2.07
35	3.21	3.49	2.74	2.99
40	4.80	5.22	4.22	4.60
45	8.04	8.74	7.31	7.98
50	17.86	19.41	16.90	18.43

Rates are also quoted by the annuities branch for guaranteed and for joint survivor annuities on both the immediate and the deferred plans. An annuity may be guaranteed for a term not exceeding twenty years. The rate for a guaranteed annuity

¹ 7-8 Edward VII, C. 5, s. 6.

² *Ibid.*, s. 6, ss. 3.

³ Booklet issued by the postmaster-general, entitled "Canadian Government Annuities."

is higher than for a life annuity; but the guarantee includes the life of the annuitant as well as the guaranteed term of years. If the annuitant dies before the guaranteed period expires, the annuity for the unexpired portion of the term will be paid in accordance with his directions. If the annuitant survives the guaranteed period, the annuity will be continued to him without any additional charge, as long as he lives. The rates are higher for females because their expectation of life, at the age when annuities are receivable, is greater than the expectation of males.

III. COMPARISON OF CANADIAN AND MASSACHUSETTS PLANS

The rates for annuities under the Canadian government system are the lowest which the writer has been able to find among annuity as distinguished from pension systems. Nearest to them in characteristics and in cost come the annuities obtainable under the Savings Bank Insurance scheme of Massachusetts. The Canadian system is confined strictly to annuities. In Massachusetts annuities are a small part of an industrial insurance program. The Massachusetts plan contains a number of insurance policies which are entirely absent under the Canadian government scheme, and even within the narrower field of annuities has features which are not offered by the Canadian government. Nevertheless, where the two systems are strictly comparable, the Canadian rates are clearly lower. For this, as will appear, there are evident reasons.

The Massachusetts savings-bank insurance has been in operation since June, 1908,¹ and it has wrought marvelous changes in the field of industrial insurance. The rates charged by the companies for this class of insurance have been cut twenty per cent; and the provisions of the company policies have been made much more just and liberal.² Savings-bank insurance in the Bay State includes a wide variety of policies. It includes

¹ The act authorizing savings insurance was approved June 26, 1907; and the first bank received permission to begin business June 18, 1908. Chapter 561, Acts of 1907, Mass.; Report of Insurance Commissioner and Bank Commissioner, 1915.

² "Successes of Savings Bank Insurance" (April 1914) by Louis D. Brandeis, reprinted from "Business—A Profession" by Massachusetts Savings Insurance League.

straight life insurance, endowment insurance, and twenty-payment life insurance. It includes also—and this is our immediate concern—several varieties of annuity policy. These may be described as immediate annuities and deferred annuities, and combination insurance-annuity policies. Deferred simple annuities may be purchased either with or without return of premiums in case of death before the annuity matures.

Easily the most popular form of annuity policy in Massachusetts is that which combines insurance and annuity. According to the latest information¹ there are in force in Massachusetts over 10,000 savings insurance policies of all kinds. Of these 242 are annuity policies, divided as follows:

147 being so-called "combination" policies covering life insurance to age 60 or 65, and a life annuity after that age;

45 being annuity contracts without return of premium in case of death prior to reaching annuity age;

47 being deferred annuity contracts providing for return of premium in case of death prior to reaching annuity age;

3 being immediate annuity contracts.

The combination insurance and annuity policy is very inviting. It provides for three things. First, it insures the applicant or policyholder until the age when the annuity matures, say 60 or 65. Second, it provides for an annuity for life from that age. Third, in case of death before the annuity reaches the amount of the insurance provided before the annuity age, the heirs will be paid the difference between the annuity already received and the amount of the insurance. To take an example. If the policyholder is 25 years of age and pays in \$2.21 per month from that age and dies before reaching 60, his family will receive \$250; if he lives past 60, he will receive a life an-

¹ May 27, 1915. Information supplied by Miss Alice Grady, financial secretary, Massachusetts Savings Insurance League. At the end of the last fiscal year of the savings insurance system, October 31, 1914, the total number of policies was 9535; whole life, 3580; endowment, 4770; combination insurance and annuity, 117; deferred annuities, 93; immediate annuities, 3; all other policies, 972. See Report of Insurance Commissioner and Bank Commissioner, 1915. House document 1640, Massachusetts.

nuity of \$200. If he dies before he receives \$250 in the form of annuity, the difference between that amount and the annuity received will be paid to his family.¹ This and other annuity policies also participate in the profits of the savings insurance banks.

This combination policy is an attractive feature of the Massachusetts plan which is not included in the Canadian system. In the nature of the case it cannot be included, as the Canadian system is confined to annuities and does not include insurance at all. The form of policy under which the Canadian and Massachusetts schemes are comparable is the simple deferred annuity. In this comparison, as already indicated, the Canadian rates are markedly lower. The comparison may be briefly illustrated in tabular form.² The amount of annuity at age 60 in each case is \$100. The monthly rates compared are those for males:

COMMENCING AGE	PLAN A		PLAN B	
	(WITH RETURN) MASS.	CAN.	(WITHOUT RETURN) MASS.	CAN.
20	\$0.99	\$0.84	\$0.82	\$0.62
25	1.32	1.10	1.07	0.82
30	1.76	1.45	1.42	1.12
35	2.39	1.98	1.96	1.56
40	3.36	2.79	2.79	2.27
45	5.02	4.18	4.28	3.52
50	8.37	7.01	7.39	6.16

It will be noticed that at the early ages an annuity under Plan A costs very little more in Canada than it would cost under Plan B in Massachusetts. At the last age given, the Canadian rate for Plan A is materially lower than the Massachusetts rate for Plan B. Moreover, in Canada, Plan A implies that the payments are returned with interest compounded at three per cent, while in Massachusetts return is made of the payments themselves only and without interest.

Such great differences in rates as these must, of course, have

¹ Form issued by the state actuary, Massachusetts.

² The Massachusetts figures are taken from "Old Age Dependency in the United States," Squier, pp. 286-90; and were checked from "Pensions for Men," issued by the state actuary, Massachusetts.

an explanation. The difference is partly due to the fact that in Massachusetts the rates are "loaded" to cover expenses, while in Canada the expenses of administration are borne entirely by the government. This statement does not, however, represent the facts quite accurately. In Canada the expenses of administration are borne entirely by the government. But in Massachusetts the state by no means stands aloof. In all \$19,500¹ is provided by the legislature for the expenses of the life-insurance departments of Massachusetts savings banks, and in addition publicity work is done by the Massachusetts Savings Insurance League, a voluntary association. The sum contributed by the state covers the offices of the state actuary, medical director, secretary, and also provides \$2500 towards the cost of the publicity campaign. These state contributions are for the whole insurance propaganda, but they include similar expenses for the annuities. Thus in Massachusetts the state does bear a substantial part of the cost of selling annuities. Still the Massachusetts annuity premiums are "loaded" for expenses, while the Canadian rates are not "loaded."

"Loading" for expenses, then, provides a partial explanation of the difference between the Canadian and Massachusetts rates. But little calculation is needed to show that this element will not suffice to explain the whole difference. The lower Canadian rates are possible also because in reckoning the reserves the Canadian government allows interest at four per cent as against three and a half per cent in Massachusetts. The Canadian rate of interest was regarded by the initiators of the system as a contribution to the annuity fund; but up till now the government has been paying quite as much for money in the open market as it has been allowing to the purchasers of annuities.

Another fact which goes to explain the higher rates in Massachusetts than in Canada is the inclusion in the Bay State policies of the privilege of participation in the profits of the savings insurance banks. The banking and the insurance departments of these banks are entirely separate and their investments must

¹ Massachusetts Acts, 1914, chapter 130; and 1915, chapter 168.

be kept separate under the law; and the insurance and annuity policies issued by the insurance departments participate in the profits earned by the insurance departments. Up till now the profits on annuities have amounted to two and a half per cent of the annual premium.¹ This operates by way of a reduction in the rates, and constitutes a set-off against the "loading" for expenses. These profits show a tendency to increase, so that the net rates are likely to decline.

The fundamental point in a comparison of the two systems, which must always be kept in mind, is that the Canadian scheme is limited to annuities only, while the Massachusetts system is primarily an insurance scheme, in which annuities play a subsidiary and a minor part. The Massachusetts plan came into being as an effort to remove abuses in industrial insurance. The Canadian act grew out of a campaign for old-age pensions and the endeavor of the government of the day to substitute annuities for pensions. The Canadian annuities are sold directly by the state, and so have a direct state guarantee. In Massachusetts the policies are issued by the insurance departments of savings banks and not by the state; but the law provides for a supervision so strict as to approach closely to a state guarantee.

IV. ANNUITIES AND PENSIONS

Canada's government annuities, owing their existence to an effort to circumvent an agitation for old-age pensions, must pay the penalty of their origin, and submit to comparison with old-age pension schemes and other government plans for warding off want in old age. Under such systems the state contributes largely or gives the whole pension outright. An outstanding example of the former is the old-age insurance of Germany, and two prominent instances of the latter are the old-age pensions of the United Kingdom and of New Zealand.

It is unnecessary here to describe the German system² of insurance against old age in any detail. Suffice it to say that

¹ Again I am indebted to the financial secretary of the Massachusetts Savings Insurance League for the information in regard to profits on annuities.

² The details here used are taken from W. Harbutt Dawson, *Social Insurance for Germany*, (1912), chapter vi.

the yearly benefit, which varies with the income earned by the worker during his years of activity, ranges from 110 to 230 marks; or from \$26.18 to \$54.74. In order to secure this the worker and the employer must make equal payments weekly during a period of 1200 weeks, or approximately twenty-five years, five weeks' margin being allowed for non-payment out of each year. The combined contributions of employer and employee by no means pay for the benefit, the state making a flat addition to the pension of fifty marks annually. The payment of the pension begins at the age of seventy.

Let us, then, see what these pensions would cost a working man under the Canadian system, as compared with the cost in Germany. If the Canadian workman begins to make his payments for the purchase of an annuity when he has reached the age of 45—this age will allow him about the same time to make the purchase as is the custom in Germany—the German minimum pension would cost him 5 cents per week; the German workman and employer combined pay 4 cents per week. Under the same conditions the German maximum pension would cost the Canadian workman 11 cents per week; the German employer and employee together pay 11½ cents per week. But the Canadian workman may make his payments over a longer period and so reduce the weekly cost. If he begins at the age of 35, the total German pension would cost him only 2½ cents per week for the minimum and 5½ cents for the maximum. Beginning at 25, the Canadian workman can obtain the German minimum for 2 cents per week, the amount paid by the German workman alone; and the German maximum would cost him about 3 cents per week at the same age.

The British old-age pension is five shillings a week, beginning at the age of 70. On a yearly basis this is approximately \$62.50. To purchase this annuity under the Canadian system would cost a Canadian workman 12½ cents a week, if he began his payments at the age of 45. Ten years earlier he could purchase the same annuity for half that amount; and at 25 years of age it would cost him just 3½ cents per week.

The New Zealand pension is double the British, and it begins five years earlier, at the age of 65. To purchase an annuity of

\$125 to begin at the age of 65, a Canadian workman would have to pay 51 cents a week, if he began at 45; 25 cents at 35; and 10 cents at the age of 20.

The New Zealand pension is quite certainly out of the reach of all but the better-paid artisans, if it is to be purchased by the workman at the Canadian rates. Not that it would be financially impossible for a regularly employed laborer to save ten cents per week. The obstacle is moral rather than economic, using moral in its broadest sense. The period of waiting involved in continuing payments over a period of fifty-five years would rob the plan of any attractiveness in the mind of the workman. But this consideration would not apply with the same force to the British pension. From 45 to 70 is a comparatively short period, and the possibility of perseverance would increase in rapid proportion to the reduction of the waiting period. There are, it may be noted, a number of "laborers"—so described by themselves—who have taken out annuities under the Canadian plan. In fact, laborers seem to be quite as ready to take up the scheme as the better-paid workmen of the artisan class.

The choice between annuities and pensions, as means of solving the problem of poverty in old age, must be settled by other considerations, however, than those of the cost to the worker. If it is true that the worker does not pay anything for the old-age pensions, from his point of view there is no choice between the two; and in a community where he has the ballot, there is little doubt how the choice will go. But this is an "if" which cannot be neglected. There is no doubt that under a tariff which applies to the common necessities of life, such as food and clothing, the workman does contribute—in all probability heavily in proportion to his means—to the cost of the upkeep of government; and consequently, where money is raised for pensions by such a system, he would contribute to the cost of these pensions. Even in the United Kingdom, with its comparatively simple system of customs taxation, he does contribute whenever, for example, he uses sugar in any form. Moreover, it is not improbable that the existence of a system of old-age pensions may affect the wages of a country. The influence would, of course, be indirect and slow; but in the long run it would make

itself felt. Neither must we lose sight of the influence of old-age pensions on thrift. These things must all be taken into account in making a comparison between annuities and old-age pensions. To enter into an extended discussion of them is outside the purpose, as it is beyond the compass, of this article. They are suggested here only for the purpose of giving a proper setting to the comparison between government annuities and pensions as methods of providing for the old age of the wage-earner.

V. FORM OF ANNUITY PREFERRED BY CANADIAN PURCHASERS

There were in force at the close of the last fiscal year¹ 3625 Canadian government annuities. Of these 3008 were on the deferred and 617 on the immediate plan. On its face this does not look like a very good record for six and a half years of operation. Still it is a very good record for the annuity business in the Dominion of Canada. According to the latest returns available at the federal Department of Insurance² the thirty-odd life-insurance companies, which do annuity business in Canada, had in force at that date a total of only 799 contracts for annuities proper, taking all the companies together. They held also 243 contracts for annuities in connection with life-insurance policies. But adding these two figures together—and the annuity is only a side issue in the insurance contract out of which it grows—all the insurance companies in Canada which do annuity business, thirty-two in number, do not carry one-third the number of contracts held by the Annuities Branch of the Post Office. Of annuities proper, Canadian insurance companies have in force 4461 contracts in all; but 3662 were written outside of the Dominion of Canada and chiefly in the United Kingdom. So it is not a fair presentation of the facts to say that Canadian government annuities are not popular in Canada. The correct statement is that the annuity idea has not caught the popular fancy in the Dominion.

¹ Report of Postmaster-General, Appendix M, Statement re Government Annuities, to March 31, 1915.

² Report of the Superintendent of Insurance, 1914, vol. ii, Life Companies, Business of 1913.

Nevertheless, although annuities—even at the favorable rates at which they are offered by the Canadian government—have not made a widespread appeal to the people, the records of the annuity branch indicate that they are reaching persons of very moderate means. One evidence of this is the small proportion of immediate contracts which is taken out. Other evidence is found in the distribution of the deferred annuities as to the amount provided for by the contract. The annuity branch of the post office publishes annually a statement showing the division of the contracts as between males and females and as regards the amount of the annuity and the age at which the contract is signed.¹ From this table for the fiscal year 1913–14 it appears that 61.5 per cent of the contracts were issued to males, and 38.50 per cent to females. Among the males, 57 per cent of the contracts called for annuities ranging from \$50 to \$150; while among the females the corresponding percentage was 56. The next highest percentages are those for \$150 to \$250; and these are 14 per cent for males and 19 per cent for females. The annuities ranging from \$250 to \$350 reach 12 per cent among the males, and 13 per cent among the females. For the higher amounts the percentages fall off rapidly, although the \$600 contracts are more generally used than those immediately below that figure.

There is another characteristic which is noticeable in the appeal made by the Canadian government annuities. Besides their appeal to persons of moderate means, they appeal to those who desire to make an investment. Citizens of the new world are not content to put their money by as a provision against old age. They are anxious to use it to make more money. That is unquestionably one of the chief reasons why annuity schemes have had so little success on this continent. The most popular forms of insurance are those which have an investment element in them. So it is with Canadian government annuities. The form of contract which has been most popular is that which includes an investment as well as provision for old age. It is what is known as “Plan A,” under which the purchase

¹ See Appendix M of the Annual Reports of the Postmaster-General.

money is returned to the heirs with three-per-cent compound interest in case the annuitant dies before the payment of the annuity commences.

Evidence of this fact is supplied in an analysis of the contracts issued by the annuity branch. For the information of the writer an examination was made of the first one hundred contracts issued, and also of the same number at intervals of five hundred, concluding with the hundred numbered from 3480 to 3579. On the basis of this sampling the records show that approximately 70 per cent of the contracts are issued on "Plan A" and only 9 per cent on "Plan B." The balance of the one hundred per cent is accounted for by immediate contracts. It is possible, of course, that this sampling may have been influenced by exceptional circumstances, such as the receipt of a "batch" of contracts from one agent. But it is not at all probable that such an influence would affect these figures so much as to change the inference to which they point. The plan which provides against old age only finds few "takers." It is the plan which includes an investment element which appeals to the Canadian annuitant.

Another feature which is brought into relief by this sample analysis is that the annuitants are desirous of having the annuity commence as early as possible. In this case the percentages are not so striking but they are sufficiently different to make the fact clear. The earliest time at which an annuity may be paid under the provisions of the law is 55, and 45 per cent of those who take out contracts choose this age. The next highest percentage is 32 at the age of 60. There are also a few scattering contracts, in which the age of commencement is put at 65 and 70; and an occasional annuitant chooses other than a quinquennial period, such as 67. A very rare instance is furnished by an optimist who was 70 years of age when he took out his contract, and who chose to purchase a deferred annuity. The evidence is, however, tolerably clear that the favorite age for commencing to reap the fruits of saving is 55. The annuitant usually prefers to reap his reward early rather than to increase that reward by postponing it.

Moreover, not only does he want his reward early; he wants

to have as much certainty as possible about it. One of the objections which is frequently raised by inquirers is that, if death comes after one payment is made on the annuity, this ends all and there is nothing for dependents. To meet this objection the annuity branch will, for an additional but small sum, guarantee the payment of the annuity for at least a certain number of years—to the annuitant if living and otherwise to his heirs. This guaranteed contract, on Plan A, is the most popular form of annuity which the branch sells. Over forty per cent of all the contracts in force at the end of the fiscal year 1913-14 were of this nature;¹ and as against deferred contracts alone the percentage was fifty or over. These contracts, in fact, numbered 1608 out of 3381 total, and 1489 out of 2850 deferred contracts extant. These figures are again evidence that what the purchasers of Canadian government annuities want is an investment. They do not care for the pure and simple gamble against death. Plan-B contracts, which represent this gamble in its simplest form, number only 342 in all, or very little over ten per cent. The Canadian purchaser of a government annuity is looking for a safe and certain investment. He is not satisfied with merely insuring himself against want in old age.

VI. DISTRIBUTION OF ANNUITANTS

One of the first criticisms which met this project of government annuities, when it was brought forward in the Canadian Senate by Sir Richard Cartwright, was that it would not reach the class which would be benefited by an old-age pension. This objection was thus voiced clearly by Senator Ferguson, who at the same time advocated a system of old-age pensions.

The gravest objection to the bill, is that, in my opinion, it would not benefit to any great extent the class which, by its title and the description we have had of it, it is intended to serve, namely the poorer people. It will prove on trial to be a system of annuities for the middle class, and I believe it will not reach the people we have more particularly in our minds to help, and whose interests we are most anxious to advance. My reason for thinking so is, that without solici-

¹ Report of Postmaster-General, Appendix M, Statement *re* Government Annuities.

tation or compulsion very few poor people would avail themselves of it, and the advantage which it offers over that already given by the insurance companies is very slight indeed.¹

After a little more than six years' experience of the act, one is compelled to admit that there is a good deal of force in Senator Ferguson's criticism; but one can say that the situation is much more hopeful than his words would indicate. The very poor have not, of course, taken out annuity contracts. But the annuity business of the government has been much more flourishing than the annuity business of the insurance companies; it has reached people of moderate means; it has penetrated considerably below the middle class; and it has attracted a large percentage of persons who have to earn their livelihood as employees.

In this connection the writer is able to present a sample analysis of the occupations of the annuitants, which was made by the actuary of the annuity branch. This analysis includes 603 annuitants, selected in groups of one hundred at equal intervals throughout the records. A complete analysis was impossible, because many of the annuitants had not filled out their occupation in the application. In this analysis, however, each group of one hundred includes only persons who did state their occupation. This sampling is analyzed into ten separate groups. The first group includes those connected with agriculture; the second, the professional classes; the third, financiers, merchants etc.; the fourth, government employees; fifth, railway employees; sixth, clerks, agents etc.; seventh, nurses, housekeepers etc.; eighth, skilled artisans; ninth, laborers; and a tenth class, miscellaneous, consisting of married women, spinsters and minors.

There are, of course, a good many doubtful cases in such a classification. For example, what about teachers? Are they to be classed with lawyers as belonging to a profession, or with clerks on the basis of their income? This particular case happens to be an important one, as teachers themselves supply the largest number of purchasers of annuities produced by any

¹ Debates of the Senate, Canada, 1906-7, p. 702.

one class. There are, in fact, among the six-hundred-odd annuitants classified no less than 89 teachers. That is, teachers alone are practically 15 per cent of the total number of purchasers. They are more numerous than all the skilled artisans and laborers taken together. They are also more numerous than the total of the class described as financiers and merchants, or than any of the other classes except that called professional. It is then of vital importance to our inference how the teacher is to be classified.

Next to the teacher in numerical importance, but still a long way below him, comes the clerk, so described by himself. The clerks numbers 39. Next to them come farmers, 38; students, 30; and clergy, 28. The other individual occupations have again considerably smaller representations. Married women, spinsters and minors, otherwise undescribed, account for 41.

In order to test Senator Ferguson's criticism, the author has attempted to draw a line which roughly divides the employing from the employee classes. In the employing class is included agriculture, the professions, merchants and financiers, and the miscellaneous group of married women, spinsters and minors; in the employee class, the rest of the groups except government employees, who might be regarded as a class by themselves in regard to a government system of annuities. Taking this classification, if teachers are to be classed with employers, that group accounts for 61 per cent of the total contracts; and the employee classes for only 35 per cent, while government employees are 4 per cent. But if teachers are to be counted as employees—which would seem to be the more accurate classification economically—then the employees aggregate 50 per cent of the total; the employers 46 per cent; and the government employees 4 per cent, as before. So it seems a fair statement of the case to say that about half of the annuity contracts are taken out by persons who earn their own living by wage or salary, and whose wage or salary, in the greater number of cases, is small.

Pursuing the test further, it is evident that the skilled artisans and laborers—those who are usually included under the term wage-earners—constitute only a small proportion among the an-

nuitants. The skilled artisans number 9 per cent, and the laborers 4 per cent—the two classes together making up 13 per cent. If we add to these two classes the railway employees—most of whom in the sample belong to the skilled artisan class in the nature of their work—the result is only 15 per cent of the total. Clerks and stenographers—strictly so called—frequently earn less than skilled artisans, but usually come of parentage which is more given to investing than is the wage-earner. Their inclusion would add nearly 9 per cent to the proportion of the composite class; but it is necessary to keep in mind that the composite is based on equality of earnings rather than on similarity of economic habits.

With these explanations, one may sum up the facts of the case thus: Canadian government annuities have not reached the poor; but they have been purchased in large proportions by persons of moderate income, by members of the employee classes, by persons whose incomes fall clearly below the standard of what is usually known as "the middle class."

VII. CONCLUSION

During the little more than six years and a half that the Canadian annuities branch has been in operation, there have been written 3700 annuity contracts.¹ The course of the business is reflected in the number of contracts taken out in each fiscal year:

Sept. 1, 1908 to March 31, 1909	80
April 1, 1909 to March 31, 1910	566
April 1, 1910 to March 31, 1911	1069
April 1, 1911 to March 31, 1912	1031
April 1, 1912 to March 31, 1913	373
April 1, 1913 to March 31, 1914	318
April 1, 1914 to March 31, 1915	263

During the first three years, it is evident from this table, there was rapid and steady growth; but in the fourth year this growth was checked and a sharp decline followed. This decline was coincident with a change in the method of propaganda—from

¹ Seventy-five annuitants have died, or their policies have been canceled, which makes the total number of contracts now in force 3625.

lecturers to advertising—the object of which was economy. The expenditure has been reduced by a quarter; but at the same time a business that was growing rapidly has been brought to a standstill and the annual expansion reduced to a third of its former figures.

It seems a fair inference from these figures, and from the evidence of the preceding pages, that the experience of the Canadian government annuities system indicates that it is a hopeful contribution to the solution of the problem of poverty in old age. It has shown that such a scheme has strong powers of appeal even in a country where the annuity idea is not popular. It has not reached the day-laborer nor the artisan in any large numbers; but it has attracted persons of very moderate income, such as clerks and school teachers and others in the same economic class. It has had a success far beyond that of the insurance companies which sell annuities in the Dominion. Moreover, the history of the system suggests that, given a proper method of propaganda, a much wider response might be expected to its appeal than has been obtained in the last few years.

FRANCIS A. CARMAN.

OTTAWA, CANADA.